THE SMART COMPANY

REVEALING THE FOUNDATIONS

– a guide to corporate foundations in England & Wales

An independent research report by The SMART Company, funded by the Cabinet Office and the Charities Aid Foundation.

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CAF
committed to effective giving

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The Gatwick Airport Community Trust

The Innocent Foundation

The Nationwide Foundation

The Northern Rock Foundation

The Shell Foundation

The Vodafone UK Foundation

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Forewords

CabinetOffice

Foreword from the Cabinet Office

I am delighted to be writing a foreword to this timely report. Public attitudes to charitable giving have changed considerably over the years and we are no longer bound by misplaced concerns about 'paternalism' and 'Victorian' attitudes to philanthropy. There is a recognition that a thriving third sector cannot exist without the funds to drive innovation and guarantee ongoing independence.

The contribution of businesses is a small but significant part of the picture. As awareness of corporate responsibility grows across the UK, so companies increasingly recognise the importance of charitable giving as a key driver of their core business. In the words of the authors corporate responsibility is "about how companies make their money, not how they spend it."

Yet despite this welcome development, surprisingly little is known about corporate community involvement in general, and corporate foundations in particular. This research provides greater understanding of why such foundations are set up and the factors that influence the appropriate model for each business. Not only does it highlight the uniqueness of each foundation, but it also contains valuable lessons for those considering setting up foundations.

The SMART Company is to be congratulated on the thoroughness and rigour of their analysis. I hope this report will stimulate further research into this important topic and that it encourages those in the third sector to work even more closely with corporate foundations in the future.

Richard Harries,
Head of Unit,
Volunteering and Charitable Giving Unit,
Cabinet Office

Foreword from CAF

As a not-for profit organisation with extensive experience of working with both charities and their donors, it is CAF's (Charities Aid Foundation) aim to maximise the value and impact of giving overall. In doing this we understand the importance of keeping ahead of current giving trends and developments in community and social investment. When we work with companies on their community investment programmes we are often asked about the different options for giving. We understand that what may be right for one organisation could be completely wrong for another. Having the information available to inform decision making, however, is absolutely crucial.

There are many issues to consider when investing in society – shareholder motivations, resources available, business drivers, charitable objectives as well as environmental considerations and governmental regulations. Corporate foundations, of which we have seen an increase in the last few years, exist as one solution for companies wanting to focus their community activities. It's also an area that has been relatively lacking in research. By embarking on this project we wanted to understand more about corporate foundations and what the important issues are for those organisations considering it as a giving option. We believe that this research makes a very valuable contribution in revealing the issues and challenges surrounding the setting up of corporate foundations.

Thank you to those organisations that participated in the research, our own clients and the members of the steering committee. We hope you will find the report both stimulating and practically useful.

Russell Prior,
Executive Director,
Company and International Services,
CAF (Charities Aid Foundation)

PART ONE: Introduction to the research

1. Introduction

The context of corporate giving

Corporate giving is not a new phenomenon – many of today's successful companies such as Cadburys and Boots can trace their roots back to great philanthropists of the Victorian age. The last 15 years, however, have seen the growth of the corporate responsibility agenda, and with it, in the UK at least, less inclination for corporate philanthropy. There is an increasing drive to "embed" corporate responsibility into regular business strategy, and to align charitable and community activities with core business focus. Corporate responsibility is now commonly understood to be about how companies make their money, not how they spend it. A responsible company is judged on its business practices in relation to its employees, customers, clients, suppliers, local communities and host countries, rather than on how much it gives to charity.

This is not to suggest that corporate giving is no longer considered to be important – a number of larger companies do, for example, use the Percent Club standard of contributing at least 1% of pre-tax profits to charity as one of their corporate responsibility targets and indicators.

According to CAF (Charities Aid Foundation) Charity Trends 2005, the top UK corporate donor, GlaxoSmithKline, gave £328 million in cash, time and gifts in kind to charitable causes.

Corporate giving does, however, make a surprisingly small contribution to overall charitable income in the UK and research suggests that in percentage terms, the amount is falling rather than rising. CAF's Charity Trends 2005 report suggests that corporate donors contributed just under 3% of UK charity income. The 2005 Giving List reports that while the total cash value of corporate giving is increasing, the value of giving as a percentage of pre-tax profit remains at under 1% and fell in 2005.[1]

In this context, the role of corporate foundations – independent, charitable bodies funded by and linked to companies, comes into question. We might expect that as companies continue to "strategise" their corporate responsibility activities, then corporate foundations become more popular as a way for companies to continue with charitable and philanthropic commitments. There is amongst many businesses and business leaders a desire to be seen to "give something back", and a foundation might provide the opportunity to do this at arm's length from core business activity. On the other hand, if companies want to distance themselves from philanthropy entirely, corporate foundations might become less popular, with those already in existence either "wound down[2]", or shifted towards a totally independent model. To investigate whether either of these scenarios is evolving, or an entirely different picture is emerging, we first need to understand more about corporate foundations.

1 It should be noted that the Giving List only focuses on the top 100 UK companies and therefore does not give a complete picture of corporate giving.

2 Charitable foundations including corporate foundations cannot in UK law be dissolved unless the foundation can no longer fulfil the purpose for which it was created or its assets have been exhausted.

About the research
This report presents original research conducted by The SMART Company, exploring the prevalence, function and activities of corporate foundations in England and Wales[3]. While there is a general awareness that corporate foundations exist, and some of the larger ones are well known, real knowledge and understanding of corporate foundations is limited. There has been little previous research conducted, and even amongst those involved in the charitable giving sector, views on basic information such as the number of corporate foundations vary widely.

The purpose of this research is to bring some clarification – to find out how many corporate foundations there are, how much they give, to whom they give, how they are structured and managed and what contribution they make to wider corporate giving and corporate responsibility. The research seeks to open up a discussion about corporate foundations, considering more deeply their precise function and whether they have a unique role to play. Inevitably the research raises a whole raft of new questions and areas for exploration – with such a limited research base to start from only the surface has been touched.

It has also been our aim to develop some practical support and advice for companies thinking about setting up a foundation, or those reviewing existing foundations. We have approached the research from a neutral position, and have not sought to reach a conclusion of whether or not corporate foundations

[3] The focus on England and Wales is explained on page 19

are a “good thing”. Rather, recognising that there is limited information available, we seek to shed some light on this sector in a way that we hope will encourage further investigation and discussion, and provide useful information for those wishing to know more.

Central to the research is establishing what is meant by a corporate foundation, and so this report first considers the existing literature and discusses the different ways of defining and grouping corporate foundations. We then present the research methodology and the main research findings. We discuss a range of questions and issues about corporate foundations, illustrating points with case study examples. Finally, we pull together some practical guidelines for those considering setting up a foundation, before posing some questions for further research.

2. What is a corporate foundation?

The first challenge of conducting research into corporate foundations is to determine what a corporate foundation actually is. Literature on the topic is sparse and a clear definition of a foundation is hard to come by.

Background

The legal provision for the creation, control, and protection of charitable funds was first codified in England in 1601 through the Statute of Charitable Uses. Corporate contributions to nonprofit organisations emerged primarily in the USA however, when railroad companies began supporting the development of Young Men's Christian Associations (YMCAs). The numbers of foundations there have continued to increase, and significant growth was seen from the late 1970s through to the early 1990s, when large numbers of mergers and acquisitions undercut the rate of growth.

According to the most current statistics from the Foundation Center, an American non-profit organisation dedicated to supplying research on foundations, there are now over 2,500 corporate foundations in the USA. The Foundation Center defines a foundation as "an entity that is established as a non-profit corporation or a charitable trust under state law, with a principal purpose of making grants to unrelated organisations or institutions or to individuals for scientific, cultural, religious or other charitable purpose."

In Europe, information is sparse and "foundations remain uncharted" across the continent (Anheier 2001). Anheier suggests that part of the reason for this is "the sheer complexity and richness of the phenomenon – historically, legally, politically as well as culturally", and the confusing terminology which means that what is defined as a foundation in one country would not qualify in another. Whilst accepting that there are several categories of foundations, he defines a foundation as "an asset, financial or otherwise, with the following characteristics:

- *Non membership-based organisation*
  The Foundation must rest on ***original deed***, typically signified in a charter of incorporation or establishment that gives the entity both intent of purpose and relative permanence.
- *Private entity*
  Foundations are institutionally separate from government, and are 'non-governmental' in the sense of being structurally separate from public agencies.
- *Self-governing entity*
  Self-governance implies that foundations must have their own internal governance procedures, enjoy a meaningful degree of autonomy, and have a separate set of accounts.
- *Non-profit-distributing entity*
  Foundations are not to return profits generated by either use of assets or the conduct of commercial activities to their owners, members, trustees or directors.

- *Serving a public purpose*
  The public purpose may or may not be charitable or tax-exempt in the relevant laws of the country, what is important is that the purpose be part of the public domain."

A common way of grouping foundations, and the one which differentiates the ***corporate*** foundation from others, is according to the type of founder (Anheier, 2001):

- **Individual foundations** – can be founded by one, or a group of individuals or family, who bring their private assets into the foundation.
- **Corporate foundations** – receive their assets from a company. Although closely tied to the company, it is a separate legal entity.
- **Community foundations** – grant-making organisations that pool their revenue and assets from a variety of sources for a specified communal purpose
- **Government sponsored or created foundation** – either created by public charter or enjoy high degrees of public sector support for either endowment or operating expenditures.

According to Webb (1994), corporate foundations are unlike other types of foundations in three main ways: they depend entirely on the company for funding; they have close ties to the parent company; and they almost always have corporate executives as member of their board of directors.

However, other works may question the last two of these factors, as the level of ties to the parent corporation will depend on the level of integration with the company. Business in the Community research (2003) identifies two models of operation for corporate foundations – independent and integrated; although most foundations will fall somewhere in between these two categories.

An integrated foundation will:

- have company employees as trustees;
- not have a committed funding formula;
- be linked to the business strategy or locality;
- will have staff seconded from the business; and
- have volunteering opportunities for company employees and senior management involvement.

An independent foundation, on the other hand, will:

- have non-employees as trustees;
- not have a committed funding formula;
- not link the focus of giving with the business;
- not have staff linked with the business; and
- will not have volunteering opportunities for employees of the business or senior management involvement.

Our definition

Both the literature and our research point to enormous diversity, even amongst the subset of corporate foundations. We have therefore simplified our definition to focus on the most fundamental characteristics. Our two key criteria for what constitutes a corporate foundation are:

- that the foundation is a registered charity; and
- that the majority of its income is in some way derived from a profit-making company.

We have focused on charities registered with the Charity Commission, thereby excluding charities based in Scotland and Northern Ireland. We have only included active charities – those who have lodged accounts with the Charity Commission for the last financial year.

Our definition of corporate support has been broad – our primary criterion has been the registered charity status, the second, majority corporate support. We have not restricted our research to UK-listed companies but rather to England & Wales registered charities. It is also important to note the diversity of income sources that have been included. We have included foundations for whom the majority of their income comes from a corporate source, but these sources are diverse and may include:

- Investment income on assets originally given by a company
- Regular donations from a company
- An endowment linked to a company's profits

- Money raised by a company's or employees' fundraising efforts
- Gifts and support in kind

We have not included "employee funds" where the income is derived solely from employee driven and organised fundraising and donations. Neither have we included "corporate foundations in reverse" – foundations that own and operate profit-making companies.

In the discussion of the results and issues arising from the research, references to "corporate foundations" refer to:

Charities currently registered in England and Wales by the Charity Commission, whose primary income is derived in some way from a corporate source.

3. Research methodology

As previous research is patchy and almost no statistical data exists, we have used a range of data sources to pull together our information. It is important to note that while our research has been as comprehensive as possible, there is a chance that some foundations have been missed.

Initial data was taken from a variety of sources including the Charities Aid Foundation, Association of Charitable Foundations, Charities Direct and various charity directories. We also used the list put together by Business in the Community for their 2003 research paper. Once a "long list" was obtained, we checked each constituent against Charity Commission records to ensure the data was correct and that the foundation met our criteria. We used the annual returns and Strategic Information Reviews which the Charity Commission makes available online to obtain details about foundations' activities. We cross-checked our list against the FTSE100 to ensure that we had captured all foundations linked with FTSE100 companies.

Having clarified our list, we identified a number of contrasting foundations to use as case studies. These foundations were contacted individually and detailed interviews were conducted. We contacted the remaining foundations with a view to conducting short, structured telephone interviews; 34 took part. We also conducted interviews with a range of experts and opinion formers.

The research has been overseen by a steering group who provided overall direction on the research, suggested themes to explore and case studies to review, as well as sharing their individual expertise.

The research was conducted between October 2005 and June 2006.

PART TWO: Research findings

1. Introduction

As basic facts about corporate foundations are hard to come by, our first priority has been to gather as much information as possible about the number, function and activities of corporate foundations. The key areas of interest have been determined as:

- Number of corporate foundations
- Date of registration
- Why foundations are set up
- Governance model
- Level and source of income
- Additional support received
- Source and appointment of trustees
- Level and type of funding
- Focus of funding

This data has been gathered through a variety of sources, but primarily through reports lodged with the Charity Commission. The content of these reports varies significantly, and some newer foundations have not yet reported, which means that data is not always complete.

2. How many foundations are there and when were they set up?

We identified 126 corporate foundations that fitted our criteria. The only previous statistical data that we are aware of is the Business in the Community (BITC) research published in 2003, which identified 101 foundations. Cross referencing against the BITC list we identified a number of foundations which have since ceased activity. The additional numbers are primarily made up of foundations which have been set up in the last few years.

An analysis of the dates of registration reveals that the number of corporate foundations increases with each decade from the 1960s. The largest grouping is of those set up in the 1990s, but figures suggest that numbers continue to increase. It is important to note that we have only mapped foundations that are currently active and registered with the Charity Commission. It is quite likely that there were foundations created in the 1960s which are no longer active and therefore have not been captured. It does, however, seem fair to assume on the basis of figures from the 1980s, 1990s and 2000s, that corporate foundations remain popular and are quite possibly becoming more so.

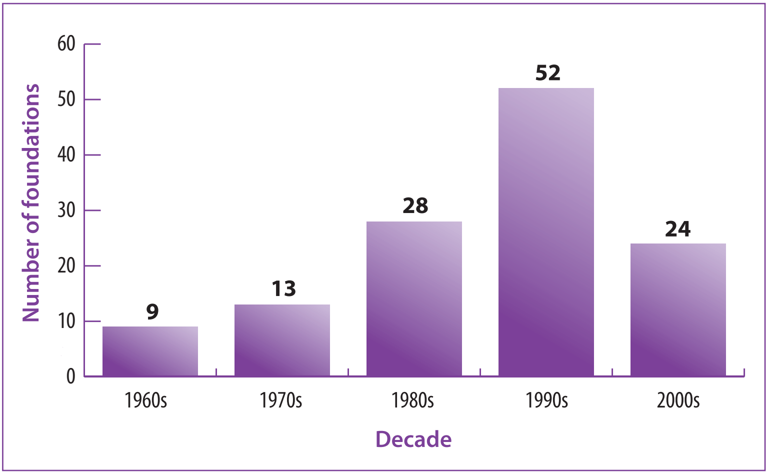

Figure 1: Numbers of corporate foundations registered per decade (chart shows number of foundations in each category)

3. Why are corporate foundations set up?

The BITC research (2003) identified a range of reasons why companies might set up corporate foundations:

- To provide a governance structure and 'arm's length' independence of corporate giving from the business
- To ensure focused giving
- To ensure continuity of giving
- Because of personal motivations of the owner or founder
- For reputational benefits
- Because of significant structural change

Information on why foundations are set up is not easy to come by – it is not necessarily covered in annual returns and most corporate foundations do not have detailed web pages or sites. In older foundations, those involved in the decision to create it may no longer be involved, or the exact reasoning not captured.

Through our phone and case study interviews, we were able to explore this question and the findings largely reflect those of BITC. Most foundations seem to be set up to provide some structure to ensure ongoing giving to community and charitable groups. We also found that several corporate foundations had been created to mark special occasions or anniversaries.

The **Gatwick Airport Community Trust** was set up as a legally binding agreement between West Sussex County Council, Crawley Borough Council and BAA Gatwick, following the publication of the airport's Sustainable Development Strategy. The purpose of setting up the Trust was to ensure that, as the airport continues to grow, funds generated by the existence of the airport are directed back into the community that is affected by the airport and its continuing growth.

The Trust receives an annual donation of £100,000 from BAA Gatwick out of its taxed income. This agreement stands until March 2009. In addition, the Trust also receives money raised through noise fines set by the UK Government on those aircraft that infringe any noise limits at Gatwick Airport. Grants are made to projects within an agreed area of benefit, focusing particularly on those people directly affected by operations at Gatwick Airport. Since its inception in 2002 the Trust has awarded over £590,000 to more than 600 projects.

The Trust is run by a board of nine trustees – including representatives from the three local councils; the Airlines Operators' Committee; Gatwick Area Conservation Campaign; and BAA Gatwick. It has no connection with BAA's corporate structure or with BAA's grant-making policy or process.

Governance structures

A small number of older foundations did cite tax benefits as one reason for their creation. Now, however, there are no additional tax benefits to be obtained by giving through a foundation, as all charitable donations attract tax relief. Foundations are complex mechanisms with specific governance procedures – it may be that it is these governance procedures that make foundations attractive, as they provide a clear, legal, independent mechanism for corporate giving.

There are two legal constructs for a foundation – either a trust or a company limited by guarantee. Of the 126 foundations identified, 41 have opted for companies limited by guarantee with the majority governed by a trust deed. Although we did not explore in any detail the reasons for choosing one construct or the other, BITC cites the advantages and disadvantages of each:

Mechanism	Advantages	Disadvantages
Trust	• Requires governance, reports to Charity Commission, needs at least 3 trustees • PR/reputational benefit	• Trustees have unlimited liability. Only suitable if no staff are employed and essentially no financial risk. • More expensive than a bank account • Accounting records need to be kept • Requirements for independent examination or audit depending on size
Company Limited by Guarantee	• As above • Trustees have limited liability	• Double reporting requirement to Charity Commission and Companies House • Most expensive option • Accounting records and audit requirements as above.

Table 1: Advantages and Disadvantages (BITC 2003)

Groupings

A relatively new phenomenon has been the creation of foundations by utilities companies to support customers and local people suffering from hardship and unable to pay bills, as well as supporting more general debt relief and counselling. Three water trust funds – Anglian, South Staffordshire and Yorkshire – were set up in 1995, with a fourth, the Severn Trent Trust Fund, set up in 1997. The last three years have seen the creation of the EDF Energy Trust, the British Gas Energy Trust and most recently the United Utilities Trust Fund.

Another grouping is clear in the late 1990s, when the "carpet-bagging" phenomenon provoked many building societies into setting up charitable foundations. These provided a dual purpose – to prevent individuals from benefiting from flotation, as any share allocations would be directed into the foundation rather than to the individual, and as a "poison pill" against takeover, as any company taking over or buying out the building society would automatically take on responsibility for and any commitments to the foundation.

1997	1998	1999	2000
Nationwide	Britannia Coventry Melton Mowbray Yorkshire	Leeds Market Harborough Tipton & Coseley	Chelsea Monmouthshire Skipton

Table 2: Date of registration amongst building society foundations

These groupings suggest two further reasons for the creation of corporate foundations – first, as useful mechanisms for very specific structural changes in the marketplace or economic system, and secondly as a result of "peer pressure". In clearly defined sectors, it seems likely that if one leading company decides to create a foundation, especially one that responds to a particular social need that has implications for core business, competitors will feel bound to follow.

4. Sources and levels of income

By definition, all the foundations in our list have an income that is derived in some way from a single corporate supporter. Again, reporting is patchy and it is not possible to gain a clear picture of how each and every foundation is funded. The data does suggest that the vast majority of corporate foundations are funded by donations from the founder company. Some of these are regular, agreed amounts, constituted in an "annual promise" or Deed of Covenant. Others receive periodic but not necessarily annual donations. A small number – around 10 to 15 – appear to be functioning solely on investment income (although this can be substantial). Several foundations have endowments, or receive an annual profit-related donation in lieu of share dividends. A small number have more unusual sources of funding:

Foundation	Funding method
Asda	Primarily funded by profit made by Asda stores on midweek Lottery ticket sales
Fiat Auto (UK)	Fiat Auto (UK) and Fiat Dealers each pay £1 for every new Fiat sold through the dealer network. Fiat Auto also pays 35p for every new Fiat sold, other than through the dealer network, and for every new Alfa Romeo sold through any channel
Airport Community Trusts (Gatwick, Birmingham, Manchester)	Primarily funded by airport operator but also receive money from fines for aircraft infringing noise limits

Table 3: Alternative methods of funding

Levels of annual income for corporate foundations vary enormously, from under £10,000 to over £20 million. There are, however, some significant clusters around certain income brackets.

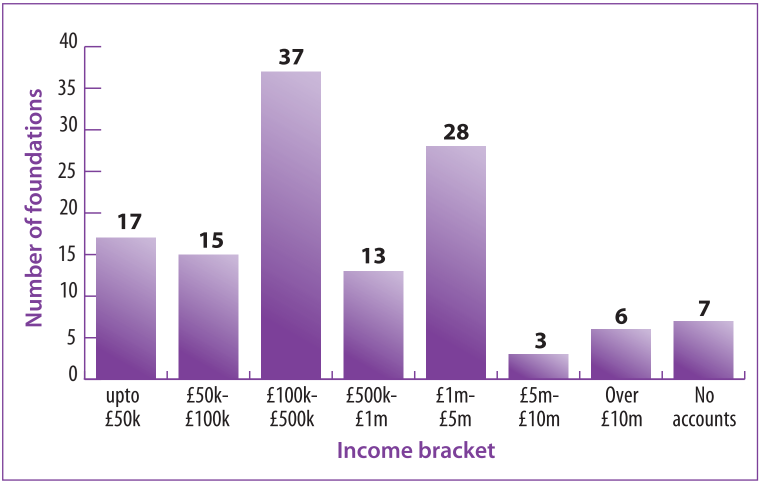

Figure 2: Annual income based on reported accounts for last financial year (2004/5)[4]
(Chart shows number of foundations in each category)

Corporate foundations are not big players in the charity world. According to the Charity Commission, the total income for all registered charities in 2004 was nearly £35 billion. The total income to corporate foundations in 2004-5 was just over £208 million – a tiny percentage of overall charitable income at about 0.6%. The largest corporate foundations by income are also nowhere near the top of the list of charities. The Vodafone Group Foundation, with

[4] Note that not all foundations follow the same financial year. Some have not yet lodged accounts with the Charity Commission and therefore income figures are not available

an income of around £27 million, is the largest foundation on our list and one of only three foundations with an income over £20 million. Top of CAF's Charity Trends 2005 list is Cancer Research UK with an annual voluntary income of £306 million, and all the charities in the top ten have incomes over £70 million.

It is important to note that corporate foundations do not necessarily represent the total sum of charitable giving by a company. Foundations may be used to fund specific programmes or to fulfil certain objectives, and may well run alongside a corporate charitable giving or community investment programme. The Diageo Foundation, for example, receives a small percentage of Diageo's overall community investment budget. Funding is used to promote community involvement in the places where Diageo operates, and "pilot" programmes which if successful can be rolled out for wider corporate support.

Additional support

In addition to the funding received from founder companies, many foundations also receive other types of non-financial support. In the list of 126 foundations, 61 reported receiving additional support, which ranges from covering basic administration costs through to paying salaries of staff and providing office space. The other foundations either receive no additional support or do not report on this fact. A very small number receive services such as office space from their founder company, the charges for which are then billed back to the foundation.

5. Levels of independence

By law, corporate foundations must be independent from their corporate founders. In practice, the level of independence varies quite significantly from foundations whose activities are intricately linked with the founder company's corporate responsibility strategy, through to those who are completely independent.

BITC (2003) described a continuum of integration to independence and determines the key factors of each as follows:

Attribute	Integrated	Independent
Governance/trustees	All trustees are employees of the company	All trustees are non-employees (or a mix)
Committed funding formula	No	Yes
Giving strategy	Linked to business focus	Not linked to business focus
Foundation staff	Seconded from business	Not linked with business
Link to employee volunteering	Yes	No
Senior management involvement	Yes	No

Table 4: Integration vs. Independence (BITC)

Our research suggests that the situation is not always so clear cut, with most foundations showing a mix of attributes of integration and independence. There are some foundations who claim total independence but whose trustees are selected and appointed by the company's Directors, or who run volunteering and matched giving programmes for the company's employees. Equally there are those who see themselves as very closely linked with the founder company but who have trustees who are completely independent.

Our telephone interviews suggest that foundations see themselves at one end or the other of the independence to integration scale. We asked them to rate on a scale of 1 to 5 how much influence the founder company has on the focus and activities of the foundation, where 1 is no influence at all and 5 is complete control. As the graph shows most interviewees claim total independence, but a significant number see themselves at the other end of the scale.

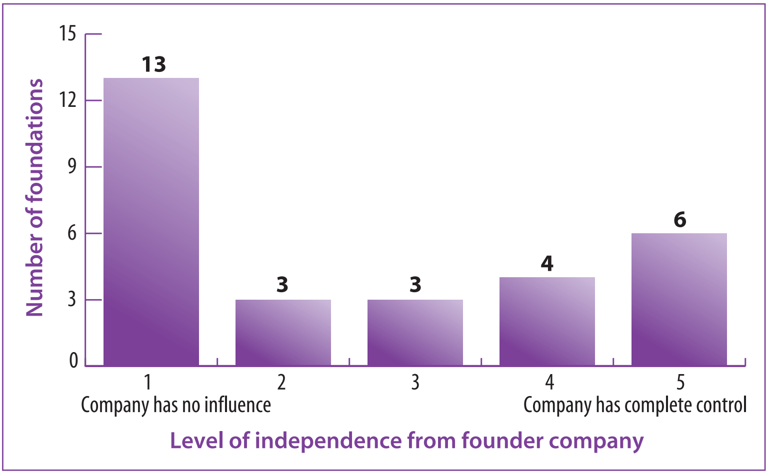

Figure 3: Perceptions of independence (out of 34 phone interviews – some did not answer. Chart shows number of respondents in each category)

Trustees

The sourcing and appointment of trustees is a major factor in the level of independence of a corporate foundation. Although trustees appointed by and drawn from the founder company must put on their "foundation hat" when acting as a trustee, it is readily acknowledged that the independence of corporate foundations is limited by their very nature. Trustees are obliged to act in the interests of the foundation, not the company, but it seems inevitable that if trustees are drawn from and appointed by the founder company, it will be hard to completely set aside the company's views and priorities.

Reporting on both the source and the method of appointment of trustees is not complete, but there appears to be a greater trend towards sourcing of trustees from the founder company and appointment by the company.

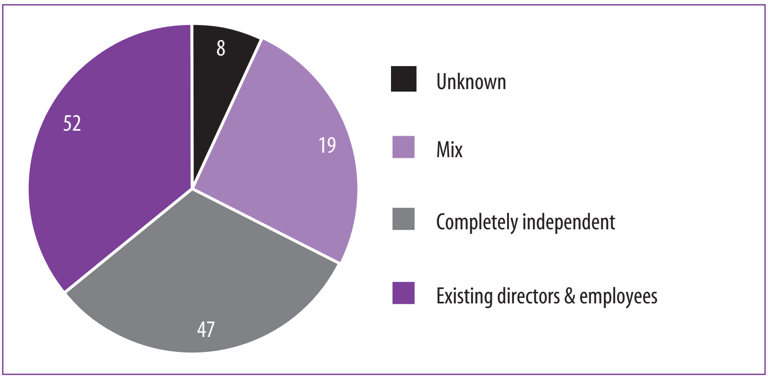

Figure 4: Source of trustees (chart shows number of foundations in each category)

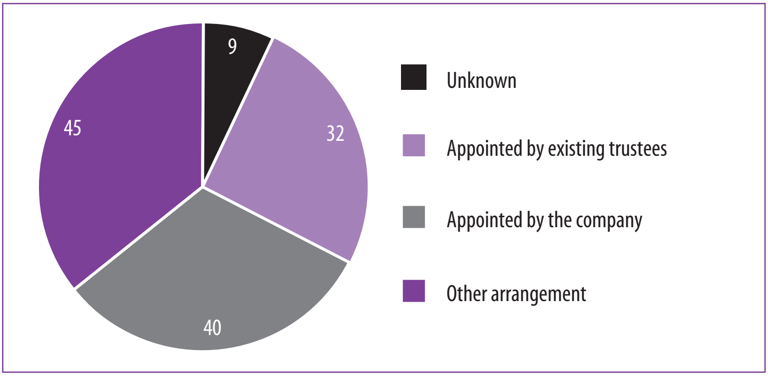

Figure 5: Who appoints trustees (chart shows number of foundations in each category)

6. What do corporate foundations support?

Foundations are designed to support charitable activity. Within this context, corporate foundations are supporting a wide range of activities with diverse levels of funding. Reporting suggests that in the last financial year, corporate foundations donated approximately £148 million to charitable causes, and total expenditure was approximately £167 million. This accounts for around 18% of total corporate giving which according to the Giving List and Charity Trends 2005 stands at around £900 million.

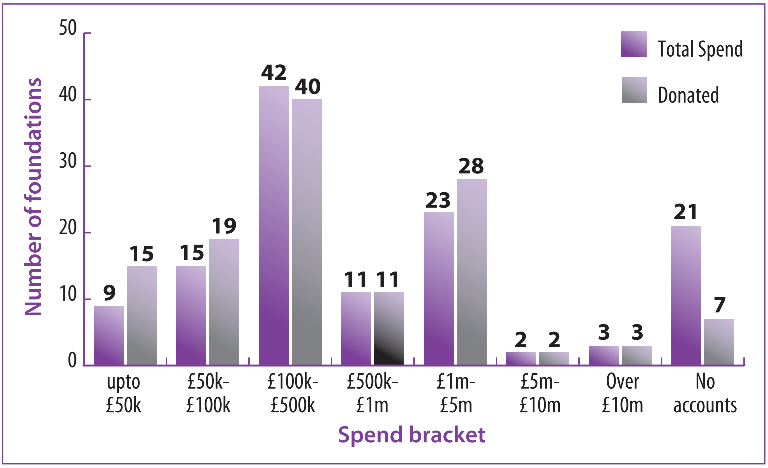

Figure 6: Total expenditure and donations by corporate foundations in the last financial year[5]. (Chart shows number of foundations in each category)

[5] Not all foundations have reported the breakdown of expenditure into direct charitable donations and additional expenses, which accounts for the larger number of "no accounts" in the figures for donations.

The figures show that the spending brackets correspond closely with income brackets, and that the levels of direct charitable expenditure largely correspond with total spend. This suggests that most foundations are directing the majority of their income towards charitable causes, and most are spending limited amounts on administration.

Focus areas

The majority of corporate foundations provide support through grants. A small number use their income to fund other activity such as research, or fund scholarships, bursaries or secondments.

Corporate foundations support a very broad range of charitable activity, and are more likely to have broad funding areas than narrowly focused ones. As registered charities, corporate foundations' funding activities must fit with their stated purpose set out in the Trust Deed or Articles of Incorporation. These, however, can be very broad ("general charitable activities as deemed fit by the trustees"), thereby providing foundations with flexibility to direct their funding to a range of causes. Some foundations do have very specific remits – those set up by utilities companies, for example, are strictly focused on the relief of hardship and debt for a particular community group.

Despite the links between foundations and their founder companies, the majority of foundations are not funding activities that reflect the founder company's business focus or strategy. A small number have a specific regional focus, usually linked to the traditional location and focus of the founder company, but for most, the funding area is broad.

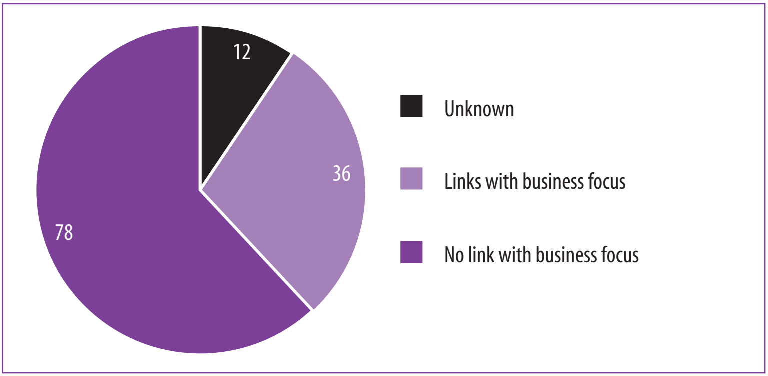

Figure 7: Links between foundation focus and business focus (chart shows number of foundations in each category)

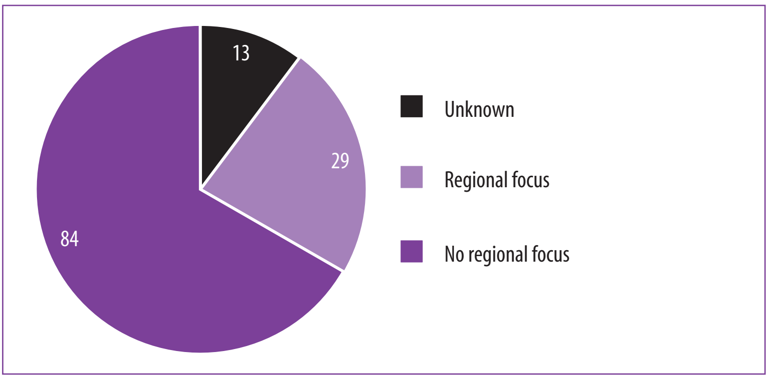

Figure 8: Foundations with specific regional focus (chart shows number of foundations in each category)

Employee involvement

As well as providing grants and funding, a number of foundations support the involvement of the founder company's employees in charitable activities. The foundation might offer matched giving, organise volunteering events and programmes, or administer or promote a payroll giving system.

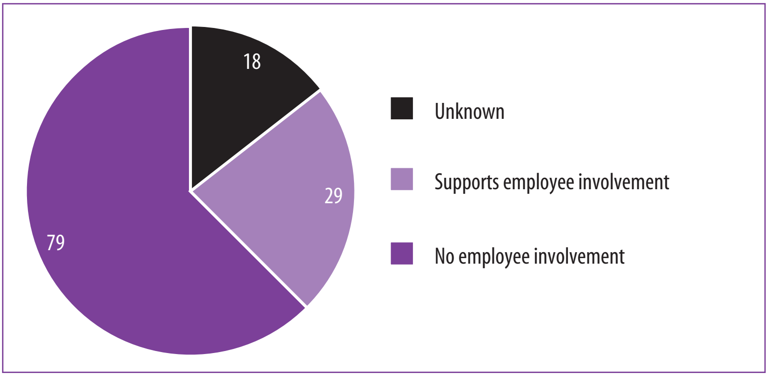

Figure 9: Foundations supporting employee involvement (chart shows number of foundations in each category)

Outputs, outcomes and impact

Within the wider world of corporate community investment, there is a growing focus on evaluation. Many companies now seek to capture not only the amount that they give – both in terms of cash and through other means such as time and gifts in kind – but what the outcome of their investment has been. As registered charities, we would expect corporate foundations to follow the same path.

It is important to clarify the difference between inputs, outputs, outcomes and impacts.

Inputs are the resources that contribute to a programme or activity, such as cash investment.

Outputs are quantifiable units that are direct products of the programme's activity, such as number of volunteers involved.

Outcomes are the benefits or changes of the programme's activity for intended beneficiaries, for example improving the skills of volunteers. These are usually included in a programme's objectives.

Impacts are *all* the changes, whether intended or unintended, short or long term, arising from the programme's activities.

Almost all of those interviewed said that inputs, outputs and outcomes were monitored, but the level of monitoring varies greatly. The most common approach is to ask for six monthly or annual progress reports, and where funding is for a longer period funds will not be released until progress has been adequately recorded.

Some foundations are starting to focus on evaluation of ***impacts***, particularly those who are supporting long-term programmes aimed at bringing about sustained social change. There is a concern from some foundations that evaluation places an unreasonable burden on recipient organisations, but others recognise the value that can be realised by both parties from identifying what has worked and what has not.

"We are trying to improve our evaluation, and have appointed an evaluation and monitoring officer for the first time this year. You need different methods for different projects – if it's a new roof for the village hall, you can see it has been done, but other issues need more thorough evaluation. For our programme on domestic violence we have commissioned a specialist external evaluation over seven years, but mostly we ask people to set targets and report on them.

We have not always been good enough at putting together the picture of what's worked and what hasn't, or at communicating what has been learnt.

Part of our recent review involved presenting Voluntary and Community Sector organisations with a series of "agree/disagree" statements, and one was that "good projects should get funded for 10 years without having to reapply". You would think that everyone would agree but in fact they disagreed – they want to be kept on their toes and thought that a much better funding period would be 4-5 years."

Fiona Ellis, Northern Rock Foundation

PART THREE: Discussion

1. Introduction

The data above reveals that beyond the broad categorisation of our definition – a registered charity primarily funded by a profit-making company – there is no one characteristic that really defines a corporate foundation. Sources of income, levels of income and expenditure, source of trustees and direction of funding all show wide variation. We can draw broad conclusions – that corporate foundations are most commonly grant-making, with relatively modest income and expenditure, and linked with the business through their trustees – but beyond that our list of foundations is typified by its diversity. So for those wishing to set up a foundation, or wanting to rethink the strategy of an existing foundation, or just wanting to know more, what learnings can we pass on?

Through our conversations with a number of different foundations, we have drawn out a number of themes and areas for discussion. These issues are diverse, but they do reflect the key stages in a foundation's life-cycle. At the point of set up, there are questions to be asked about how independent the foundation will be and what relationship it will have with the founder company. There is also the question of whether a foundation is appropriate or manageable – particularly pertinent for smaller companies.

As the foundation pursues its activities, there are decisions to be made about the type of programmes it will support, and the amount of interaction it will have with the founder company, for example through employee volunteering.

After several years of operation, many foundations will initiate a strategic review, which provides an opportunity to take stock, reflect on what has been learnt and possibly pursue a new direction.

It is also important to remember that foundations do not operate in a vacuum – they are dependent on their funders for continued support or responsible for generating their own income. Some foundations have been affected by either the reduction or termination of direct funding from the founder company as corporate priorities and strategies have changed. In such cases a foundation might depend on its own investment income to continue, or severely reduce its activities.

The foundation life cycle is shown in the model below.
The issues that we have drawn out from the research and the case studies that illustrate them are indicated on the model.
The issues have been raised as points of interest and debate, the closer examination of which should contribute to deeper thinking and understanding of corporate foundations.

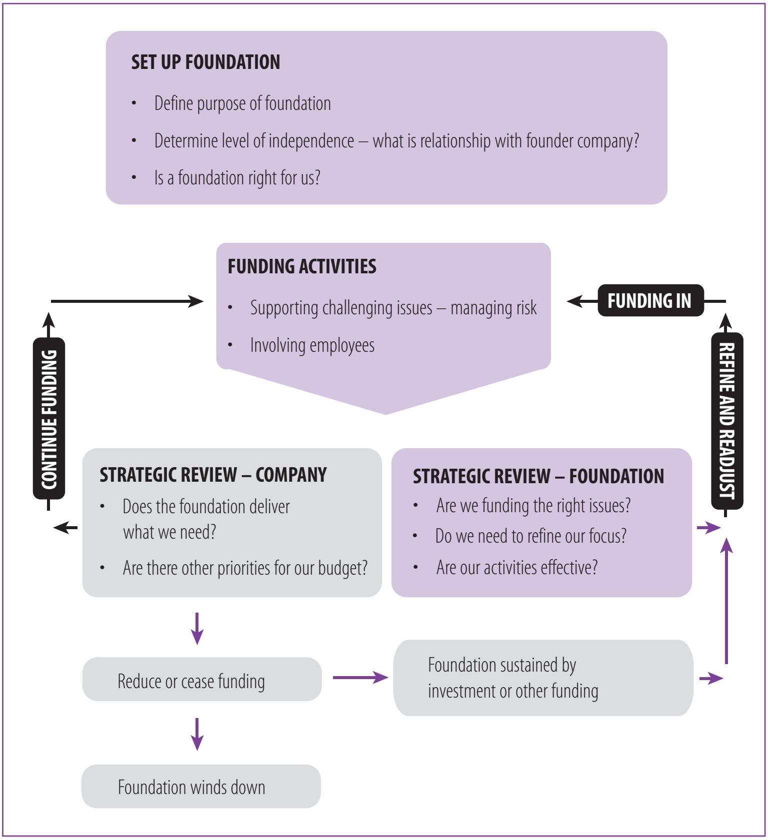

Figure 10: The corporate foundation life cycle
(Purple shaded boxes indicate the issues identified for discussion below)

2. Setting up a foundation – questions of independence

As the data shows, the majority of foundations are governed by Boards of Trustees who are drawn from the founder company and appointed by the company. At the same time, foundations must be independent and trustees must act in the interests of the foundation, not the funding company.

We also identified a number of foundations which have been set up very specifically to address a central corporate responsibility concern of the company, or to manage the company's community investment programme. As well as receiving funding from the founder company, many foundations are based in the offices of the company, have staff seconded from the company or who are company volunteers, and have administrative costs paid for. Several foundations have directors who are also involved in the company's corporate responsibility activity, either sitting on the corporate responsibility committee or running a particular strand of the programme. With all these interlinking strands, is it really possible for a foundation to be considered "independent"?

The foundations we spoke to recognise this as an issue and various steps have been taken to manage it. A number of foundations with purely internally sourced trustees are considering the introduction of one or more independent members – something which has been advised by Charity Commission visits. Other options include using independent, external advisors, or intermediaries such as consultants who manage the day to day operations of the foundation.

One director the importance of having completely separate banking and legal arrangement, ideally with specialist charity providers, to maintain complete independence and transparency. Funding arrangements can also affect actual or perceived independence. An endowment helps the foundation to be self-determining in its activities, whereas a funding arrangement based on annual, negotiated donations may require more compromise between the interests of the foundation and the interests of the company.

Our interviewees also emphasised the importance of good working relationships with the founder company. The Zurich Community Trust has a code of conduct for its trustees, and a Memorandum of Understanding between the Trust and the company which sets out the responsibilities of each party. The ideal scenario appears to be clear independence in terms of operation and governance, but a closeness of relationship which allow both parties to achieve their aims without coming into too much conflict. Ways to achieve this seem to include having a mix of independent and internal trustees, having a good system of communication and discussion with the founder company, and if necessary having a formal statement of responsibilities.

The Director of the **Shell Foundation**, Kurt Hoffman, explained the reasons why it was decided that a foundation was the best model through which to achieve their aims. His reasons outline the importance of transparency and independence:

"The world is cynical towards corporates, and it was felt that an institutional mechanism was needed that would be easily understood by the outside world and would be easily explainable. If you use corporate money that benefits from tax breaks directly to do good things in the outside without a visible governance structure, it can often take a lot of explaining. A ''foundation" structure provides a transparent mechanism to do this but is legally obliged to use corporate money to deliver on its charitable objectives.

This format has allowed the Foundation to focus its charitable activities on tackling social issues linked to the core business of Shell group. Because of the foundation form, anyone can take a closer look and could see that its activities are legitimate.

We wanted to create an entity with a funding base that was independent from the year swings in corporate profitability, so we created an endowment.

We wanted to bring in more than just money but also skills and knowledge of the Group. Again, it was easier to make the argument for these to be brought in through a foundation.

The model has worked. It has been absolutely critical in allowing us to engage robustly with the outside world, and has enabled us to engage as a fellow member of civil society with non-profits rather than coming in with corporate baggage."

3. Is a foundation right for us? Foundations and smaller companies

Foundations may traditionally be associated with big corporations wishing to give a formal structure to philanthropic and charitable giving, but as our research has shown, corporate foundations are far more diverse than this. They are not structures for the use only of larger companies – smaller companies have also used them successfully.

Adnams is a beer, wine, hotel and pub company of around 280 people based in Southwold, Suffolk. The Adnams Charity was set up in 1990 to mark the centenary of incorporation of Adnams as a limited company. The Charity is a great demonstration of the strong attachment that still exists to the company's roots in Southwold – its sense of being a truly 'local' company and the sense of responsibility it has to the local community.

Because of this sense of 'localness', the Charity wanted to support locally based community groups and organisations, and having found that secure funding in surrounding areas is an issue for charities, has drawn up a 25 mile catchment area around Southwold for its support.

Grants tend to range between £500 and £5,000 and the charity only supports organisations where its funding can make a measurable difference to the lives of local people.

As a result the Charity will not support projects run by national charities. Given the level of the gifts, the Charity is rarely the sole funder, but recognises the value that its donations can have in enabling the recipient to leverage additional funding from other sources. The guidelines state an expectation to see the results of its support within 12 months.

There is a strong feeling with Adnams that the Charity should remain a charity and therefore must not become a marketing arm for the company. As a result, a separate programme of community projects has been set up which encourage employee volunteering, and look for PR and reputational gain for the company, whilst still benefiting the local community. Three of the charity's five trustees are employees who are elected onto the board. This is felt to be very important in order to protect the transparency of the Charity; to maintain its credibility and focus; and also to raise the awareness and profile amongst other staff.

Adnams feels the Charity is of great value to the reputation of the company, and plays a key role in demonstrating its commitment to the community – which they truly believe is one of the reasons why their customers are so loyal to them.

innocent Drinks was set up in 1999, and now employs 105 people and has a turnover of £70 million. The company has always donated 10% of profits to the community. In 2004 the company decided to set up the innocent Foundation as a way of formalising its giving – largely due to the amount of money it was managing because of an increase in profits. The remit of the Foundation is to support those areas where it has an impact as a business. The Foundation has a particular focus on community development and the environment, and if it can tie projects back to fruit so much the better!

Resource is clearly an issue for such a small company. To try to keep the administration to a minimum, the Foundation has a clear giving policy stated on the website. This has recently been re-written to try and lower the number of speculative enquiries it receives.

Initially, the management of the Foundation and the partnerships were entirely the responsibility of a volunteer committee (10 employees). However the committee reached the point where they did not have the resource needed to maintain links and assess the impacts of the partnerships, on top of their day jobs, so innocent brought in a 'Guardian'. The Guardian is the only paid member of staff and works two days per week. This role has brought valuable experience of the issues and an external perspective, which are helping to ensure the money is put to the best possible use. As a result the giving has become a lot more focused. There are also plans for a Foundation Scholarship which will allow staff members to go and spend time with one of the project partners.

innocent sees the Foundation as having benefits on a number of levels, some of which are directly relevant to them at the present and some which may be in the future. The first is that for ease of administration a Foundation is a useful structure. Secondly, within a climate of corporate takeovers – particularly for small companies like innocent – it is felt that a Foundation offers some protection over community investment to a certain degree, allowing it to continue where a cause related marketing programme may be dropped.

4. Activities and funding – questions of risk

In discussions about the benefits and advantages of giving through corporate foundations, a strong theme to emerge was that as independent charitable bodies, foundations were able to extend funding to more controversial areas than a company might.

As corporate responsibility has developed, we have seen companies more willing to engage with difficult social issues and there are a number of examples where the balance of business benefit with solving serious social problems has proved successful. There is, though, still a level of anxiety amongst companies about becoming involved with difficult or controversial issues. The most popular areas for support remain education and health[6], and companies who have sought to become involved in "harder" causes have come in for criticism.

Addressing more difficult social issues through the mechanism of a foundation allows the company to remain at arm's length, whilst still potentially gaining some reputational benefits from a willingness to engage. A charitable body is perceived to have more legitimacy and authority, and interviewees felt that the level of expertise that exists within some foundations made it more appropriate for them to address the issue than it would be for a corporate responsibility department.

[6] LBG Returns Consolidated Data, Corporate Citizenship Company 2004

Challenging areas

The **Northern Rock Foundation** funds programmes around a range of themes, several of which address exclusion and disadvantage, including prevention of local and regional social decline; helping disadvantaged people and communities to increase their assets and economic activity; and finding new ways to address disadvantage. They also have a programme of "special initiatives" where they work with and support partner organisations to tackle difficult issues including domestic abuse and reoffending.

Most of **The Nationwide Foundation's** activity is focused around an overarching theme of "Supporting Families", within which the main areas of focus are prisoners' families, domestic violence and young offenders.

The work of the **Zurich's Community Trust has two strands – the Community Trust programmes and employee involvement programmes**. All of the activity focuses on helping the most disadvantaged people in society.

However their Community Trust programmes are deliberately aimed at less popular causes. Current programmes include a four-year partnership with Addaction aimed at breaking the cycle of generational drug abuse, a five year programme aimed at supporting the most vulnerable older people and a programme in southern India combining long term funding and skill transfer with National Government Organisations. Partners are chosen whose projects are innovative, long lasting and could potentially be replicated elsewhere. Funding is typically for 3-5 years and there are opportunities for staff to get involved.

These foundations have refined their focus areas over a period of time, and have streamlined their activities to focus deliberately on more challenging issues. There is a question, however, of whether this approach could potentially lead to conflict with the founder company. This might emerge for two reasons. First, a foundation seeking to align itself with more difficult causes also seems more likely to be seeking deeper and more measurable impact. It is recognised that partnerships are more likely to be successful if larger grants are given, the partnership is sustained over a period of two to four years, and "core" funding is made available. All of these activities could be moving a foundation away from the original intentions of its founders, especially if it was set up to make smaller donations to general charitable causes in the local community. The Nationwide Building Society, for example, asked the Nationwide Foundation to retain a "small grants" programme in order to support the local communities across the UK where the Society operates. This is in addition to a larger grants programme which the Foundation operates.

Another cause for conflict may be the inevitable link between the foundation and the founder company, especially where as in the vast majority of cases, the two share a name. Despite the foundation being at "arm's length," to the wider public the two are often indistinguishable, and indeed one foundation did comment on the annoyance when their work was mistaken for that of the founder company. It therefore seems likely that concern may arise in the company if a foundation is becoming involved in risky or difficult causes. The issue is clearly a sensitive one and not something that people necessarily feel comfortable talking openly about. It should, however, always be a consideration either for a new foundation or one rethinking its strategy, and underlines the need for clear structures of communication with the founder company, as well as a positive and trusting relationship.

5. Activities and funding – employee involvement

Many companies now have some form of employee involvement as part of their corporate responsibility activity – providing volunteering opportunities and supporting employees' charitable commitments through matched giving and payroll giving. Evidence suggests that the opportunity for such involvement is a growing priority for employees, who benefit from a "feel-good factor" as well as the chance to build confidence, communication and team skills through volunteering.

The administration of such programmes can be a burden, however, which may be why some companies have devolved this responsibility to their corporate foundation. The Tesco Charity Trust, for example, was set up with the specific aim of managing the company's charitable activities and to provide a focus for employee involvement. The trustees are all drawn from the company and the Trust is administered and managed by Tesco employees. The Trust runs a Charity of the Year scheme for a chosen charity selected by employees, and makes a 20% contribution to the amount of money raised by employees for the chosen charity.

Many foundations were not created with the purpose of managing employee involvement, but for some it is an important element of their activities. Organising employee involvement through a foundation may help to unify activity into one, readily identifiable programme, helping with internal communication and levels of participation.

Zurich's employee involvement programme is an established part of the culture with over 20% of staff giving regularly to charity and over 50,000 hours volunteered by 30% of staff.

The programmes are selected by staff and supported by Zurich's Community Trust team, and there are opportunities to get involved with fundraising, grant giving and volunteering. Zurich Cares provides a range of support to employees, including:

- Matched fundraising
- Matched money for team challenges
- £200 grant awards for schools or charities for employees who are school governors or charity trustees
- £100 small grants for local charities
- Time off for volunteering
- Give As You Earn – donations are matched 100%
- A lottery with over £1000 prize money each month

In 2005, employees raised over £500,000 which amounts to £56.44 per person. 20% of employees take part in Give As You Earn, and 15% in team challenges. Employee surveys show that there is 100% awareness of Zurich Cares, with 95% saying that they are proud to work for a company that encourages employee involvement.

Pam Webb, Head of the Community Trust, explains, "The employee involvement strand dates back to the time that the original Trust was set up. At the same time as the Trust was created, staff set up a staff charity fund. Everyone soon realised that their work was overlapping so the two initiatives were merged into one. It shows how much it is a part of the culture of the organisation."

The **Vodafone UK Foundation** is one of Vodafone's most established within its worldwide network of local foundations. "Supporting Vodafone employees in their engagement in community activities" is one of the Foundation's key aims, and the Foundation supports Vodafone UK'S 'Getting Involved' employee programme. Launched in December 2002, the in-house programme covers fundraising, volunteering and payroll giving activities, and is fully underpinned by the support of the UK Foundation.

The fundraising programme has been going from strength to strength, with funds raised by employees doubling year on year. The Foundation matches all fundraising up to £500 for each employee, up to five times a year. Matching not only encourages employees and boosts their efforts, but enables the Foundation to track levels of activity.

Sarah Shillito, Director of the Vodafone UK Foundation, sees a number of benefits to the fundraising activity:

- A significant sum of money is raised for charity.
- Employees feel highly motivated by the matched funding and are genuinely grateful for the support given.

- Employees feel proud to work for Vodafone because of this support.
- It galvanises groups of employees or departments if they are working towards a target together. Many sites hold "Dress Down" days and agree what the charity will be that they support. They get to choose – and because it is for what they care about, rather than being told, this is highly motivational.

There are also challenges:

- How to budget for this – the higher the profile of the scheme the more it goes up!
- Finding a balance between encouraging employees and maintaining enthusiasm, and finding funding for other Foundation activities.
- The whole point of the employee scheme is that it supports what employees care about, but this by definition means the causes supported are very diverse. It can therefore confuse the message of what the Foundation wants to stand for and what its areas of focus are.
- Because this is the element of the Foundation's work that employees are most aware of and which most directly impacts them, they think it is all it does. It actually represents only about 1/5 total budget spend. There is a plan to raise awareness in-house of the Foundation's more focussed work.

In terms of **volunteering**, all employees can claim up to 24 hours a year paid time off to volunteer, and in addition can participate in team volunteering events. This activity seems to be growing. Sarah identifies some real benefits arising from volunteering:

- Charities benefit from the hands-on practical tasks being completed or the business skills and expertise being shared with them
- Team volunteering can provide a great team building experience

Again there are challenges:

- Capturing the activity that is taking place. The Foundation knows it is happening but information is not always passed on by line managers. Some data is captured through offering financial support for team volunteering materials, but there is much taking place especially amongst individuals that is not recorded. This is partially resolved by the launch last year of The Vodafone UK Foundation Community Awards – more information will be gained through nominations of employees for awards.
- Employees often want to volunteer but do not know where to find an opportunity to suit them.
- There can be a "Christmas rush" where everyone wants to go team volunteering around Christmas time so they feel they have done some good. It may be the charities do not need help over the time period the employees seek it and

this has to be managed without dampening enthusiasm. After all the aim is a win-win, benefit to the charity and motivation of the employees, not just the latter!

- In both fundraising and volunteering there is a challenge to manage employee expectation of how much the Foundation can support them from a team of just three and where this is only 1/5 total budget spend and therefore just a part of the Foundation's work.

Alan Harper, Chairman of The Vodafone UK Foundation, says: "Whilst the UK Foundation has its areas of focus, we realise that employees will have their own favourite causes. We regard it as very important to support them in fundraising or volunteering for their chosen charity. If it matters to them, it matters to us".

6. Strategic review – assessment and adjustment

Our research showed that it was difficult to pin down the reasons why a foundation is set up. Foundations act as useful mechanisms for corporate giving, and as the example from Shell shows, the independence can prove useful when seeking to engage with wider society. Most foundations, however, especially the older ones, were set up for a whole mixture of reasons and with a very broad focus, often as a corporate expression of "giving something back" or "doing the right thing".

Many of these foundations now find themselves dealing with a complex historical legacy of traditional support areas. As there is a growing emphasis in wider community investment on the importance of evaluation and impact measurement, a number of foundations are looking to realign their work accordingly. Several of those we spoke to were either in the midst of or have recently completed detailed strategic reviews, with the intention of clarifying and refining their focus. The need for this is another reflection of the complexity and diversity that exists both within individual corporate foundations and among the sector as a whole, and perhaps a move away from their traditional role as purely philanthropic bodies.

The **Northern Rock Foundation** is coming to the end of an "incredibly thorough review of the Foundation and its place in the grant-making universe of the north-east". The review is aimed at rethinking the Foundation's programmes and learning from past experiences to work more effectively in the future. It has involved a year of consultation with organisations and individuals in its focus area of the north-east. Ten, three-hour seminars have been held for 50 people at a time using external facilitators, and about 14 expert seminars organised asking for feedback on what the role of the foundation should be in addressing certain social needs. A series of reflective papers have been written for trustees, looking at what has been achieved so far, what has worked and what hasn't, and recommendations will be made for a five year plan. The result will be new policies and guidelines for implementation in 2007.

The **Vodafone Group Foundation** (VGF), which was set up 2001 has also undertaken a strategic review within the last six months. The VGF has an unusual set up of funding a network of 23 local foundations which operate in the countries where Vodafone has business presence. In addition to the local foundation network, the VGF also funds a portfolio of global programmes, and for them the review was about taking a step back from where they had got to over the past five years to really understand how they as a foundation could have the biggest impact. The review led to a number of recommendations which have been presented to the board of trustees and are currently being explored in more detail before a future direction is decided.

A process of strategic review can also help to streamline a foundation's procedures and reduce administration for both the foundation and its grant recipients. Most corporate foundations have a very small team, and the management of distribution of small grants and gathering feedback can be burdensome. Some foundations are now focused on more sustained, targeted funding which has greater impacts and uses the resources which they do have more effectively and efficiently.

The **Nationwide Foundation** has been through a period of refinement and refocus over a number of years. Chief Executive Lisa Parker explains:

"Early on the focus was "community support & realising potential" – a very wide funding criteria. By 2000, The Foundation was receiving over 2000 applications a year and making individual grants of up to £30k. The number of requests far outweighed The Foundation's capacity – so we undertook research to refine our criteria and maximise the benefits. The refined focus concentrated on volunteering, disadvantage & discrimination and quality of life.

The programme was then refined further – we dropped disadvantage and quality of life, retained volunteering and introduced the theme of rural communities, which we then focused on until 2005. In November 2005, we launched a new strategy and funding criteria with the overarching theme of "Supporting Families".

In 2000, Nationwide gave The Foundation a one-off donation of £7m to fund two years of grantmaking. The Foundation trustees set aside 30% to fund a special project called the New Generation Initiative (NGI) – research was conducted into what was needed in society at the time. We looked at government priorities, other work already taking place within the third sector, and the priorities of other key funders. Parenting was then chosen as a theme. Feedback from charities identified a need for core funding and sustainable support, so the money was used to fund five charities for periods of 3, 4 and 5 years. An independent evaluation was also commissioned to ensure we learned as much as possible to help shape future activities.

Our current strategy builds on what's been learnt through the NGI, which essentially was that substantial, long-term funding for core and development work has more of an impact on charities and their beneficiaries, than one-off small grants. We therefore now give fewer small grants and have split our annual funding between the Investor Programme (£1.25m) and the Small Grants Programme (£0.5m), which form the Supporting Families strategy. Both programmes make grants under the three themes of domestic violence, young offenders and prisoners' families, in an effort to address some of the drivers of family breakdown and social exclusion. By the end of March 2007, The Foundation will have made a commitment to fund six charities under each funding theme with three year support totalling £150,000 per charity.

We have tried to simplify the application process for charities applying under the Investor Programme and so invite one page expressions of interest and directly approach other charities which might be eligible. This saves charities a huge amount of valuable time by not asking them to complete lengthy application forms at the outset. We received 50 expressions of interest for funding relating to the domestic violence theme, visited and interviewed 20, and invited fewer than 10 to submit formal, detailed bids. We then developed a three year funding contract with six of those charities. For each funding theme, we have also set aside £100k for evaluation, and £0.25m for partnership working activities identified by the charities. This type of core, sustained funding combined with partnership working is unique. Partnership working is a challenge but it makes the programme worth more than the sum of its parts and brings a stronger, collective voice to the causes being supported. We want to achieve the most impact with our funds that we can."

In June 2006, The Nationwide Foundation won the grant making category at the Charity Awards 2006.

PART FOUR: Conclusions

1. Why have a foundation?

The research findings and the discussion above shows that corporate foundations are used in a wide variety of ways, and as vehicles for corporate giving raise a number of questions and issues.

Our research has focused on foundations rather than companies, and we have not explored in detail what the benefit of giving through a foundation is from a corporate perspective. We can, however, see a number of benefits and uses of corporate foundations as identified by their directors and managers.

Corporate foundations can:

- Help to provide a structure and focus for corporate giving. This can be particularly useful where the company wants to address a specific social need or challenge, or "kick-start" a new initiative.
- Provide a company with a more credible way of engaging with the voluntary sector. This is useful where the company wants to support social investment and intervention, and provide core funding over a sustained period rather than just making one off charitable donations.
- Provide a focus and identity for employee involvement, and take the administrative burden of coordination away from the company.
- Offer a legitimate and less risky way of supporting difficult and unpopular social issues.

We have not explored the advantages or otherwise for the voluntary sector of receiving funding from corporate ***foundations*** rather than companies themselves. Research suggests, however, that one of the biggest challenges faced by voluntary organisations when trying to access corporate funding is finding information about what companies will support, and making contact with the right people[7]. As registered charities, corporate foundations are governed by deeds which state their purpose, and must produce annual reports on their activities. This makes it easier for organisations seeking support to identify whether their activities fall within the remit of a particular foundation.

From the perspective of the foundation, disadvantages are hard to identify. Interviewees did stress that foundations are complex and do require very solid, transparent governance structures if they are to be credible.

From the point of view of the company, whilst some value the autonomy that a foundation can offer, some choose not to set up a foundation for exactly that reason. The UK arm of Deutsche Bank, for example, feels strongly that community activities should be more aligned with the business than a foundation would allow them to be. This alignment is seen as critical for the sustainability of community activity – sustainability which only exists if the programme is integral to, and offers value for money to the business. However they have chosen to set up foundations in some other countries, predominantly those where they want to demonstrate Deutsche Bank's willingness to invest in the social fabric of those countries, and the US where setting up a foundation was felt to be appropriate for cultural reasons.

[7] A CAF research paper researched and written by The SMART Company, 2004.

2. Setting up a corporate foundation – questions to ask

One of the aims of the research was to identify practical guidance for companies thinking about setting up a foundation. The diversity which we have found amongst existing foundation makes it difficult to prescribe a particular model or approach, and our position is neutral on whether or not a corporate foundation is a "good thing".

There is, however, a clear need for more information about corporate foundations, a need which many of our interviewees also raised. With these factors in mind, the most appropriate form of practical guidance seems to be that of key questions to ask, or things to think about carefully when considering whether a foundation is really the route to take.

Be clear about the purpose of the foundation. Will it deliver what you want? Foundations are successful at addressing specific social needs or tackling difficult issues. They are not any better than a good CR programme at raising the company's profile as a good corporate citizen, and require more administration and management.

Determine the level of independence and integration needed. The aims of the foundation will determine how it links with the company. Foundations focused on tackling social issues may work better at arm's length; those designed to manage employee involvement need to be well integrated into the business.

How will the foundation be funded? Foundations with a committed funding formula, such as an agreed allocation of pre-tax profits, find it easier to plan long-term activities than those who must negotiate their funding year on year. Founder companies can also provide valuable support in other ways, through providing office space, administration support and seconding staff. It is important to have a clear agreement at the outset as to what level of support is available so that the foundation can plan properly.

Have a clear and effective governance structure. Where will the trustees be from? Who will appoint them? This will depend on how much independence is sought, but good practice seems to determine that there should be at least some independent trustees to provide a different point of view. Choosing trustees with a mix of skills will contribute to more effective running of the foundation.

What will the reporting structure be? If it has a financial interest, the company's Board will want to receive updates on the activities of the foundation. There needs to be a clear structure in place for such communication and an understanding of how the relationship will be managed and where responsibility will lie.

Who will the foundation be funding? This will depend on the purpose of the foundation. Having open objectives for the purposes of Charity Commission registration allows for flexibility and realignment in the future. At the same time, clarity of purpose allows for focused funding, easier communication, and helps to prevent over subscription for funding.

What sort of funding will it provide? Voluntary organisations want sustained funding for core activities. It is important to consider whether this can be achieved within the remit of the foundation, or whether small project grants will deliver the desired level of impact. In addition to grants, foundations might consider funding research programmes and wider dissemination activities, particularly if their work is very specifically focused.

How will effectiveness be measured? If the effectiveness of activities can be demonstrated, a more powerful argument exists for continued funding. Many charities expect to take part in evaluations, and find it useful for their own purposes – the key is to find a method which captures the most useful data without being too much of an administrative burden. A key part of measuring effectiveness is subsequent review to ensure that lessons are being learnt and that activities are realigned accordingly.

How will activities be sustained? Whatever the funding agreement, it is important for foundations to plan for the future in case there are changes in income. Foundations who cannot rely on regular donations will often maintain a reserve to cover existing commitments in case donations cease.

3. Recommendations for further research

As noted, research looking at corporate foundations is limited. This report presents initial findings of what is an enormous subject area, and our research has raised many questions which we have been unable to explore within the scope of this project. Our conversations have revealed, however, that there is an interest in corporate foundations and a desire for more information. If, as our research indicates, the number of corporate foundations continues to increase, this suggests a growing audience who will be keen to learn from the experiences of others and explore in more depth some of the issues that we have raised. In this context then, we propose a number of ways in which this research might be taken forward:

Maintaining a database of corporate foundations

We used a wide range of sources to put together our list of corporate foundations. Apart from the BITC research, we were unaware of any other complete list, and the Charity Commission does not classify registered charities by type. The picture will continue to change and therefore one priority would be to keep the database up to date, so that information about corporate foundations can be fed into other research about wider corporate giving and charitable support.

Exploring corporate foundations from other perspectives

We have concentrated almost solely on conducting research with foundations themselves. While this has provided valuable information, it has also raised many questions which we cannot answer, such as why companies decide to set up foundations and how the experience of working with a corporate foundation differs from working directly with a company. To complement and build on this research, we suggest that further research is conducted with other involved parties and audiences to widen the perspective.

Exploring issues in more depth

We have touched on some issues that corporate foundations face, but it would be useful to take individual issues and explore them in more depth and try to identify ways of addressing them. Questions of independence and the relationship between the foundation and its founder company are of importance to all foundations, and it would be valuable to explore in more detail how this is being managed by different foundations. Measurement of effectiveness and particularly impact measurement is another challenge for foundations that would benefit from further investigation and research.

How are corporate foundations different?

There are many different types of foundation. In this research we have not explored whether there is something unique about corporate foundations in terms of the way they operate and how they interact with those to whom they give support. A review of the differences between types of foundation may be revealing in terms of helping to identify the advantages and disadvantages of corporate giving through a foundation, and might also uncover lessons which would be useful for all foundations and their recipients.

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The SMART Company is a leading consultancy specialising in corporate responsibility, community investment and related public policy issues. SMART provides strategic advice and practical support to clients across the private, public and voluntary sectors, including a number of corporate foundations.